

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended

| | | | |
|---|--------------------------------|---|------------------------|
| Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name City of Harbor Springs | County Emmet |
| Audit Date 12/31/05 | Opinion Date 6/30/06 | Date Accountant Report Submitted to State 7/27/06 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

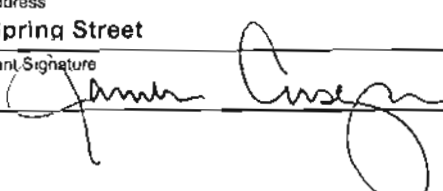
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☒ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|-------------------------|------------------------|---------------------|
| Certified Public Accountant (Firm Name) Hill, Schroderus & Co., LLP | | | |
| Street Address 923 Spring Street | City Petoskey | State MI | ZIP 49770 |
| Accountant Signature  | | Date 7/27/06 | |

**FINANCIAL REPORT
CITY OF HARBOR SPRINGS
December 31, 2005**

**CITY OF HARBOR SPRINGS
FINANCIAL REPORT
December 31, 2005**

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Hill • Schroderus & Co., LLP

Certified Public Accountants & Consultants

June 30, 2006

Independent Auditors' Report

Honorable Mayor, Members of
City Council and City Manager
City of Harbor Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Harbor Springs, Michigan (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Harbor Springs, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harbor Springs' basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Schroderus & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

City of Harbor Springs

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Frederick W. Geuder, City Manager
Ronald B. McRae, Clerk/Comptroller/Treasurer
Dan Branson, Chief of Police

Jean Jardina, Mayor
Laura Kors, Mayor Pro-tem
James Grogan, Council Member
Michael Heinz, Council Member
Dennis Wiggins, Council Member

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Harbor Springs, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2005.

FINANCIAL HIGHLIGHTS:

Our financial status improved during the last year. Net assets for governmental activities total, \$6,098,143 at year-end, which reflects an increase of \$455,945 from the previous year. Net assets for business type activities total, \$7,974,915 at year-end, which reflects an increase of \$146,098 from the previous year.

Governmental activities expenses for the year were \$1,690,192. These activities generated \$177,514 in charges for services as well as \$217,246 in operating grants and contributions. Property taxes of \$1,197,911, transfers from business activities of \$263,632, state-shared revenues of \$141,132, interest and investment earnings of \$83,298 and other general revenues of \$65,404 provided additional support for the governmental activities.

Business activities operating revenue for the year was \$4,981,612 and expenses were \$4,674,775. Interest earnings and capital contributions provided additional revenue of \$102,893. Transfers to governmental activities of \$263,632 were made from net revenues and existing net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, public works and recreation and cultural. The business activities of the City include electric, water and sewer and waterfront operations.

FUND FINANCIAL STATEMENTS:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service fund to account for motor vehicle and equipment usage. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

FIDUCIARY FUNDS:

The City is a trustee or fiduciary for assets that are being held for the benefit of third parties. Since these funds cannot be used to address activities or obligations of the City, these funds do not appear in the government-wide financial statements.

NOTES TO THE FINANCIAL STATEMENTS:

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

The table below summarizes the City's net assets as of December 31, 2005:

| CITY OF HARBOR SPRINGS' NET ASSETS | | | | | | |
|--|-------------------------|--------------|--------------------------|--------------|--------------------------|---------------|
| December 31, 2005 | | | | | | |
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets | | | | | | |
| Current and other assets | \$ 3,134,587 | \$ 2,998,218 | \$ 4,335,541 | \$ 4,188,917 | \$ 7,470,128 | \$ 7,187,135 |
| Capital assets-net of accum. dep. | 4,615,324 | 4,387,131 | 4,313,485 | 4,150,569 | 8,928,809 | 8,537,700 |
| Total assets | 7,749,911 | 7,385,349 | 8,649,026 | 8,339,486 | \$ 16,398,937 | 15,724,835 |
| Liabilities | | | | | | |
| Current | 214,452 | 196,702 | 478,287 | 284,189 | 692,739 | 480,891 |
| Noncurrent | 1,437,316 | 1,546,449 | 195,824 | 226,480 | 1,633,140 | 1,772,929 |
| Total liabilities | 1,651,768 | 1,743,151 | 674,111 | 510,669 | 2,325,879 | 2,253,820 |
| Net Assets | | | | | | |
| Invested in capital assets, net of related debt | 3,123,939 | 2,792,462 | 4,193,485 | 3,990,569 | 7,317,424 | 6,783,031 |
| Restricted | 31,792 | 49,682 | 20,750 | 27,500 | 52,542 | 77,182 |
| Unrestricted | 2,942,412 | 2,800,054 | 3,760,680 | 3,810,748 | 6,703,092 | 6,610,802 |
| Total net assets | \$ 6,098,143 | \$ 5,642,198 | \$ 7,974,915 | \$ 7,828,817 | \$ 14,073,058 | \$ 13,471,015 |

At the end of the year, the City of Harbor Springs is able to report positive balances in all three categories of net assets. The largest portion of the City's net assets is its investment in capital assets (land, buildings, equipment, improvements, construction in progress and infrastructure), less any related debt used to acquire those assets that is still outstanding.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for the Police Department and development fee payback. These restricted assets do not include those designated internally for specific purposes by City Council. The City Council had designated \$35,000 to pay the City's share of a proposed Fire Station to be constructed at the Little Traverse Township Hall site during 2005. Another \$35,000 has been designated for this purpose in 2006.

The remaining portion of net assets, unrestricted net assets, may be used at the City's discretion to meet ongoing obligations as well as those amounts designated internally for specific purposes. The proposed Fire Station is the only purpose for which the City Council has formally designated funds for.

The results for the City as a whole are reported in the Statement of Activities, which is summarized below:

CITY OF HARBOR SPRINGS' CHANGE IN NET ASSETS
Year Ended December 31, 2005

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---------------------------------------|-------------------------|---------------------|--------------------------|---------------------|--------------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 177,514 | \$ 172,999 | \$ 4,981,612 | \$ 4,295,685 | \$ 5,159,126 | \$ 4,468,684 |
| Operating grants and contributions | 217,246 | 270,831 | - | - | 217,246 | 270,831 |
| Capital grants and contributions | - | - | 10,323 | 17,001 | 10,323 | 17,001 |
| General revenues: | | | | | | |
| Property taxes | 1,197,911 | 1,127,371 | - | - | 1,197,911 | 1,127,371 |
| State-shared revenues | 141,132 | 119,014 | - | - | 141,132 | 119,014 |
| Interest and investment earnings | 83,298 | 50,946 | 92,570 | 53,420 | 175,868 | 104,366 |
| Miscellaneous | 65,404 | 24,719 | - | - | 65,404 | 24,719 |
| Total revenues | 1,882,505 | 1,765,880 | 5,084,505 | 4,366,106 | \$ 6,967,010 | 6,131,986 |
| Expenses | | | | | | |
| General government | 136,748 | 169,725 | - | - | 136,748 | 169,725 |
| Public safety | 732,193 | 658,396 | - | - | 732,193 | 658,396 |
| Public works | 476,909 | 557,422 | - | - | 476,909 | 557,422 |
| Recreation and cultural | 230,243 | 204,722 | - | - | 230,243 | 204,722 |
| Other | 31,059 | 28,179 | - | - | 31,059 | 28,179 |
| Interest on long-term debt | 69,544 | 56,802 | - | - | 69,544 | 56,802 |
| Unallocated depreciation | 13,496 | 148,523 | - | - | 13,496 | 148,523 |
| Electric | - | - | 3,211,276 | 2,700,136 | 3,211,276 | 2,700,136 |
| Water and sewer | - | - | 1,078,626 | 1,102,644 | 1,078,626 | 1,102,644 |
| Waterfront | - | - | 384,873 | 426,108 | 384,873 | 426,108 |
| Total expenses | 1,690,192 | 1,823,769 | 4,674,775 | 4,228,888 | 6,364,967 | 6,052,657 |
| Change in net assets before transfers | 192,313 | (57,889) | 409,730 | 137,218 | 602,043 | 79,329 |
| Transfers | 263,632 | 242,149 | (263,632) | (242,149) | - | - |
| Change in net assets | 455,945 | 184,260 | 146,098 | (104,931) | 602,043 | 79,329 |
| Net assets-beginning of year | 5,642,198 | 5,457,938 | 7,828,817 | 7,933,748 | 13,471,015 | 13,391,686 |
| Net assets-end of year | <u>\$ 6,098,143</u> | <u>\$ 5,642,198</u> | <u>\$ 7,974,915</u> | <u>\$ 7,828,817</u> | <u>\$ 14,073,058</u> | <u>\$ 13,471,015</u> |

As reported above, the City incurred approximately \$1.7 million in governmental expenses. These expenses were funded primarily with property taxes (71%), operating grants and contributions (13%, mostly from the State for streets), transfers from the Electric and Water and Sewer Funds (16%) and charges for services (10%).

Business-type activities had an increase in net assets before transfers to governmental activities of \$409,730. Combined business-type and governmental activities net assets experienced a 4% increase during the year.

FUND FINANCIAL ANALYSIS:

At the end of the year, the governmental funds reported a combined fund balance of \$2,513,440, which was \$90,384 higher than at the beginning of the year. The City did undertake street capital projects during the year of approximately \$170,000, paving State Street, improving the drainage on Third Street as well as sidewalk construction at various locations. About \$30,000 was also expended for the Zoll Street Building project sprinkler system, leaving \$61,078 in the capital project fund for completion of this project which includes the city hall and police department facility.

The proprietary funds net assets also increased \$146,098 to \$7,974,915. The Electric Fund generated income before transfers and capital contributions of \$414,925 while the Water and Sewer Fund incurred a \$74,155 loss before transfers and the Waterfront Fund had income of \$58,637.

General Fund budgetary highlights are that the actual results varied slightly from the budgetary plan. An unreserved ending fund balance of \$1,139,100 was budgeted. The ending unreserved fund balance actually was \$1,285,389. The schedule presented as required supplementary information indicates an actual ending fund balance of \$1,370,891, which includes amounts reserved for inventories, prepaid expenditures and police department. Overall expenditures were less than budgeted. An amount of \$35,000 was budgeted as an expenditure for the City's share of a proposed fire station. No actual expenditure was made for this purposed during the year. It is considered to be internally designated for this purpose in the future.

CAPITAL ASSET AND LONG TERM-DEBT ACTIVITY:

At the end of the year the capital assets, net of accumulated depreciation and long-term debt were:

Capital Assets

| | |
|---------------------------|--------------|
| Governmental Activities: | \$ 4,615,324 |
| Business Type Activities: | \$ 4,313,485 |

Long term Debt

| | |
|---------------------------|-------------|
| Governmental Activities: | \$1,437,316 |
| Business Type Activities: | \$195,824 |

Major capital activity during the year included major and local street projects, additional work on the Zoll Street Building project, electric utility transmission line right acquisitions and work at the Waterfront on the docks.

There was no major debt activity during the year. Existing debt payments were made timely.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS:

The spread between the millage rate levied by the City and the maximum millage rate permitted under the Headlee Amendment is shrinking. In order to maintain the current level of services provided through the General Fund, the City may need to look at alternative revenue sources or a override of the Headlee Amendment. The other alternative would be a reduction in services and/or personnel.

The City has approved and is undertaking an electric rate study to determine whether the electric utility rates are sufficient to meet needed revenues and to determine that rates are equitably distributed among users. The City also intends to do a water and sewer rate study using internal resources.

The City is a member of the Harbor Springs Area Fire Authority. The Authority is planning to construct a satellite station, and the City has budgeted \$35,000 per year in the 2005 and 2006 budgets to be reserved for the City's contribution. An additional amount may be budgeted in 2007 (not likely to be a full \$35,000). Following construction of the satellite station, fire department operations will increase somewhat to operate the second station, but the City's historic share of operating costs will be about 25% of the increase.

The City undertakes an informal annual review of street conditions in order to determine street repair and reconstruction priorities. It appears that Pine Street between Arbor and Hoyt Streets is in need of major reconstruction, including some water and sewer repairs in addition to the street itself. Total costs could exceed \$500,000, which would be funded by street funds and water and sewer funds. The City may also consider a sidewalk along that route, which would substantially increase the cost, and would also be funded by street funds.

The City annually reviews its major equipment needs. In July of 2006, administration was authorized to purchase a bucket truck for use by the Electric Department, at a cost of about \$133,000. The Equipment Fund has adequate funds available for this purchase; delivery of the truck is expected in early 2007. The City will pay for the chassis upon delivery of the chassis to the vendor (approx. \$50,000).

REQUEST FOR INFORMATION:

This financial report is designed to present users with a general overview of the City's finances and to demonstrate the entity's accountability for the revenues it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City Clerk's office, City of Harbor Springs.

CITY OF HARBOR SPRINGS
Statement of Net Assets
December 31, 2005

| <u>Assets</u> | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| Current Assets | | | |
| Cash | \$ 2,666,689 | \$ 2,911,454 | \$ 5,578,143 |
| Investments | 75,264 | - | 75,264 |
| Receivables: | | | |
| Accounts | 2,690 | 776,095 | 778,785 |
| Interest | 29,016 | 32,245 | 61,261 |
| Due from fiduciary funds | 74,150 | 2,239 | 76,389 |
| Due (to) from other funds | (3,282) | 3,282 | - |
| Due from other governmental units | 203,595 | - | 203,595 |
| Inventories | 15,342 | 328,700 | 344,042 |
| Prepaid expenses | 49,667 | 23,727 | 73,394 |
| Total current assets | <u>3,113,131</u> | <u>4,077,742</u> | <u>7,190,873</u> |
| Noncurrent Assets | | | |
| Restricted assets: | | | |
| Customer deposits | - | 115,824 | 115,824 |
| Bond covenants | - | 59,683 | 59,683 |
| MPPA working capital advance | - | 82,292 | 82,292 |
| Deferred charges | 21,456 | - | 21,456 |
| Capital assets | 9,400,149 | 8,605,890 | 18,006,039 |
| Less: accumulated depreciation | <u>(4,784,825)</u> | <u>(4,292,405)</u> | <u>(9,077,230)</u> |
| Total noncurrent assets | <u>4,636,780</u> | <u>4,571,284</u> | <u>9,208,064</u> |
| Total assets | <u>\$ 7,749,911</u> | <u>\$ 8,649,026</u> | <u>\$ 16,398,937</u> |
| <u>Liabilities and Net Assets</u> | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 38,354 | \$ 358,873 | \$ 397,227 |
| Accrued expenses | 33,123 | 46,998 | 80,121 |
| Due to other governmental units | 26,246 | 32,416 | 58,662 |
| Accrued interest | 9,161 | - | 9,161 |
| Payable from restricted assets: | - | - | - |
| Current portion of bonds payable | - | 40,000 | 40,000 |
| Bonds payable, due within one year | <u>107,568</u> | <u>-</u> | <u>107,568</u> |
| Total current liabilities | <u>214,452</u> | <u>478,287</u> | <u>692,739</u> |
| Noncurrent Liabilities | | | |
| Payable from restricted assets: | | | |
| Customer deposits | - | 115,824 | 115,824 |
| Compensated absences payable | 32,043 | - | 32,043 |
| Bonds payable, net | <u>1,405,273</u> | <u>80,000</u> | <u>1,485,273</u> |
| Total noncurrent liabilities | <u>1,437,316</u> | <u>195,824</u> | <u>1,633,140</u> |
| Total liabilities | <u>1,651,768</u> | <u>674,111</u> | <u>2,325,879</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 3,123,939 | 4,193,485 | 7,317,424 |
| Restricted for: | | | |
| Police department | 31,792 | - | 31,792 |
| Development fee payback | - | 20,750 | 20,750 |
| Unrestricted | <u>2,942,412</u> | <u>3,760,680</u> | <u>6,703,092</u> |
| Total net assets | <u>6,098,143</u> | <u>7,974,915</u> | <u>14,073,058</u> |
| Total liabilities and net assets | <u>\$ 7,749,911</u> | <u>\$ 8,649,026</u> | <u>\$ 16,398,937</u> |

CITY OF HARBOR SPRINGS
Statement of Activities
For the Year Ended December 31, 2005

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total | |
| Primary Government | \$ 136,748 | \$ 19,744 | \$ 1,589 | \$ - | \$ (115,415) | \$ - | \$ (115,415) | |
| | 732,193 | 125,032 | - | - | (607,161) | - | (607,161) | |
| | 476,909 | - | 191,715 | - | (285,194) | - | (285,194) | |
| | 230,243 | 32,738 | 23,942 | - | (173,563) | - | (173,563) | |
| | 31,059 | - | - | - | (31,059) | - | (31,059) | |
| Governmental activities | 69,544 | - | - | - | (69,544) | - | (69,544) | |
| | 13,496 | - | - | - | (13,496) | - | (13,496) | |
| Total governmental activities | 1,690,192 | 177,514 | 217,246 | - | (1,295,432) | - | (1,295,432) | |
| Business-type activities | 3,211,276 | 3,583,165 | - | 10,323 | - | 382,212 | 382,212 | |
| | 1,078,626 | 972,480 | - | - | - | (106,146) | (106,146) | |
| | 384,873 | 425,967 | - | - | - | 41,094 | 41,094 | |
| | 4,674,775 | 4,981,612 | - | 10,323 | - | 317,160 | 317,160 | |
| Total business-type activities | \$ 6,364,967 | \$ 5,159,126 | \$ 217,246 | \$ 10,323 | (1,295,432) | 317,160 | (978,272) | |
| Total primary government | | | | | | | | |
| General revenues: | | | | | | | | |
| Property taxes | | | | | 1,197,911 | - | 1,197,911 | |
| State-shared revenues | | | | | 141,132 | - | 141,132 | |
| Interest and investment earnings | | | | | 83,298 | 92,570 | 175,868 | |
| Miscellaneous | | | | | 65,404 | - | 65,404 | |
| Transfers | | | | | 263,632 | (263,632) | - | |
| Total general revenues and transfers | | | | | 1,751,377 | (171,062) | 1,580,315 | |
| Change in net assets | | | | | 455,945 | 146,098 | 602,043 | |
| Net assets - beginning of year | | | | | 5,642,198 | 7,828,817 | 13,471,015 | |
| Net assets - end of year | | | | | \$ 6,098,143 | \$ 7,974,915 | \$ 14,073,058 | |

CITY OF HARBOR SPRINGS
Balance Sheet
Governmental Funds
December 31, 2005

| <u>Assets</u> | General | Major Street | Local Street | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|------------------|-------------------|--|--------------------------------|
| Cash | \$ 1,133,314 | \$ 55,931 | \$ 860,907 | \$ 110,348 | \$ 2,160,500 |
| Investments | - | - | - | 75,264 | 75,264 |
| Receivables: | | | | | |
| Accounts | 219 | - | - | - | 219 |
| Accrued interest | 13,627 | 940 | 7,511 | 1,044 | 23,122 |
| Due from other funds | 74,150 | 616 | - | - | 74,766 |
| Due from other governmental units | 169,713 | 27,291 | 6,591 | - | 203,595 |
| Inventories | 7,791 | - | - | 7,551 | 15,342 |
| Prepaid expenditures | 45,919 | 271 | 135 | 292 | 46,617 |
| Total assets | \$ 1,444,733 | \$ 85,049 | \$ 875,144 | \$ 194,499 | \$ 2,599,425 |
| <u>Liabilities and Fund Balances</u> | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 19,487 | \$ 332 | \$ 2,223 | \$ 5,802 | \$ 27,844 |
| Accrued expenditures | 26,896 | 644 | 321 | 227 | 28,088 |
| Due to other funds | 1,213 | 1,042 | 1,552 | - | 3,807 |
| Due to other governmental units | 26,246 | - | - | - | 26,246 |
| Total liabilities | 73,842 | 2,018 | 4,096 | 6,029 | 85,985 |
| Fund balances | | | | | |
| Reserved for: | | | | | |
| Inventories and prepaids | 53,710 | 271 | 135 | 7,843 | 61,959 |
| Police department | 31,792 | - | - | - | 31,792 |
| Unreserved | 1,285,389 | 82,760 | 870,913 | 180,627 | 2,419,689 |
| Total fund balances | 1,370,891 | 83,031 | 871,048 | 188,470 | 2,513,440 |
| Total liabilities and fund balances | \$ 1,444,733 | \$ 85,049 | \$ 875,144 | \$ 194,499 | \$ 2,599,425 |

CITY OF HARBOR SPRINGS
Reconciliation of Governmental Funds Balance Sheet to the
Statement of Net Assets
December 31, 2005

| | | |
|--|-----------|------------------|
| Total Fund Balance - Governmental Funds | \$ | 2,513,440 |
|--|-----------|------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives. Includes capital assets of Internal Service Fund.

| | | |
|-----------------------------|--|-------------|
| Governmental capital assets | | 9,400,149 |
| Accumulated depreciation | | (4,784,825) |

| | | |
|--|--|---------|
| Governmental funds report interest when due, whereas in the statement of net assets, interest is accrued on outstanding bonds. | | (9,161) |
|--|--|---------|

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Includes Internal Service Fund.

| | | |
|----------------------------|--|-------------|
| Governmental bonds payable | | (1,512,841) |
| Compensated absences | | (32,043) |

Internal service funds are used to charge costs of certain activities, such as motor vehicle usage, to various departments within the City. The assets and liabilities of the Internal Service Fund are included in government activities in the statement of net assets.

Internal Service Fund balances not included in other reconciling items:

| | | |
|---|--|----------|
| Current assets | | 517,604 |
| Deferred charges | | 21,456 |
| Accounts payable, accrued expenses and due to other funds | | (15,636) |

| | | |
|--|-----------|-------------------------|
| Net Assets of Governmental Activities | \$ | <u>6,098,143</u> |
|--|-----------|-------------------------|

CITY OF HARBOR SPRINGS
Statement of Revenues, Expenditures, and Changes In Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

| | General | Major Street | Local Street | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------|-------------------|--|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 1,197,911 | \$ - | \$ - | \$ - | \$ 1,197,911 |
| Licenses and permits | 16,981 | - | - | - | 16,981 |
| State grants | 141,132 | 140,830 | 50,885 | - | 332,847 |
| Charges for services | 155,468 | - | - | 2,302 | 157,770 |
| Fines and forfeits | 2,763 | - | - | - | 2,763 |
| Interest and investment earnings | 36,840 | 2,978 | 22,193 | 6,173 | 68,184 |
| Other | 36,158 | - | 4,470 | 1,589 | 42,217 |
| Total revenues | 1,587,253 | 143,808 | 77,548 | 10,064 | 1,818,673 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 234,806 | - | - | - | 234,806 |
| Public safety | 736,835 | - | - | 2,178 | 739,013 |
| Public works | 278,591 | 204,343 | 164,447 | - | 647,381 |
| Recreation and cultural | 208,227 | - | - | 22,016 | 230,243 |
| Other | 31,059 | - | - | - | 31,059 |
| Capital outlay | - | - | - | 35,787 | 35,787 |
| Total expenditures | 1,489,518 | 204,343 | 164,447 | 59,981 | 1,918,289 |
| Excess (deficiency) of revenues over expenditures | 97,735 | (60,535) | (86,899) | (49,917) | (99,616) |
| Other financing sources (uses) | | | | | |
| Operating transfers in | 190,000 | - | 150,000 | 27,100 | 367,100 |
| Operating transfers out | (177,100) | - | - | - | (177,100) |
| Total other financing sources (uses) | 12,900 | - | 150,000 | 27,100 | 190,000 |
| Net change in fund balances | 110,635 | (60,535) | 63,101 | (22,817) | 90,384 |
| Fund balances - beginning of year | 1,260,256 | 143,566 | 807,947 | 211,287 | 2,423,056 |
| Fund balances - end of year | \$ 1,370,891 | \$ 83,031 | \$ 871,048 | \$ 188,470 | \$ 2,513,440 |

CITY OF HARBOR SPRINGS
Reconciliation of the Statement of Revenues, Expenditures, and
Changes In Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended December 31, 2005

| | | |
|--|----|--------|
| Net Change In Fund Balances - Total Governmental Funds | \$ | 90,384 |
|--|----|--------|

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of these assets is allocated over
their estimated useful lives as depreciation.

| | |
|---------------------------------|----------|
| Expenditures for capital assets | 214,867 |
| Current year depreciation | (13,496) |

| | |
|--|--------|
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal paid on long-term debt. | 25,000 |
|--|--------|

| | |
|--|-----|
| Interest on long-term debt is recognized as an expenditure when it is due in the governmental funds. However, in the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. | 167 |
|--|-----|

| | |
|--|-------|
| Compensated absences are recognized as an expenditure when it is paid in the governmental funds. In the statement of activities, however, compensated absences are recognized as an expense when earned. | 1,559 |
|--|-------|

| | |
|--|---------|
| Internal service funds are used to charge costs of certain activities, such as insurance and motor vehicle usage, to various departments within the City. The net revenue (expense) of the internal service funds are included in governmental activities in the statement of activities. | 137,464 |
|--|---------|

| | | |
|---|----|----------------|
| Change in Net Assets of Governmental Activities | \$ | <u>455,945</u> |
|---|----|----------------|

CITY OF HARBOR SPRINGS
Statement of Net Assets
Proprietary Funds
December 31, 2005

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|--------------------------------|---|------------------------------|---------------------|------------------------|---|
| | Electric System | Water and Sewer System | Waterfront | Totals Current Year | |
| <u>Assets</u> | | | | | |
| Current Assets | | | | | |
| Cash | \$ 1,408,956 | \$ 1,147,327 | \$ 355,171 | \$ 2,911,454 | \$ 506,189 |
| Receivables: | | | | | |
| Accounts | 665,371 | 110,724 | - | 776,095 | 2,471 |
| Accrued interest | 18,851 | 8,026 | 5,368 | 32,245 | 5,894 |
| Due from other funds | 1,481 | 4,765 | - | 6,246 | - |
| Inventories | 283,395 | 45,305 | - | 328,700 | - |
| Prepaid expenses | 11,340 | 6,475 | 5,912 | 23,727 | 3,050 |
| Total current assets | <u>2,389,394</u> | <u>1,322,622</u> | <u>366,451</u> | <u>4,078,467</u> | <u>517,604</u> |
| Noncurrent Assets | | | | | |
| Restricted assets: | | | | | |
| Customer deposits | 70,144 | 15,650 | 30,030 | 115,824 | - |
| Bond covenants | - | - | 59,683 | 59,683 | - |
| MPPA working capital advance | 82,292 | - | - | 82,292 | - |
| Deferred charges | - | - | - | - | 21,456 |
| Capital assets | 4,312,194 | 2,235,643 | 2,058,053 | 8,605,890 | 2,602,011 |
| Less: accumulated depreciation | <u>(2,153,664)</u> | <u>(1,228,751)</u> | <u>(909,990)</u> | <u>(4,292,405)</u> | <u>(1,225,308)</u> |
| Total noncurrent assets | <u>2,310,966</u> | <u>1,022,542</u> | <u>1,237,776</u> | <u>4,571,284</u> | <u>1,398,159</u> |
| Total assets | <u>\$ 4,700,360</u> | <u>\$ 2,345,164</u> | <u>\$ 1,604,227</u> | <u>\$ 8,649,751</u> | <u>\$ 1,915,763</u> |

CITY OF HARBOR SPRINGS
Statement of Net Assets
Proprietary Funds
(Continued)
December 31, 2005

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|--|---|------------------------------|--------------|------------------------|---|
| | Electric System | Water and Sewer System | Waterfront | Totals Current Year | |
| Liabilities and Net Assets | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 348,703 | \$ 4,084 | \$ 6,086 | \$ 358,873 | \$ 10,510 |
| Accrued expenses | 19,632 | 26,186 | 1,180 | 46,998 | 5,035 |
| Due to other funds | - | - | 725 | 725 | 91 |
| Due to other governmental units | - | 32,416 | - | 32,416 | - |
| Bonds payable due within one year | - | - | - | - | 82,568 |
| Total current liabilities | 368,335 | 62,686 | 7,991 | 439,012 | 98,204 |
| Current Liabilities (payable from restricted assets) | | | | | |
| Current portion of bonds payable | - | - | 40,000 | 40,000 | - |
| Noncurrent Liabilities | | | | | |
| Payable from restricted assets: | | | | | |
| Customer deposits | 70,144 | 15,650 | 30,030 | 115,824 | - |
| Bonds payable (net of current portion, unamortized premiums, issuance costs, and deferred amount on refunding) | - | - | 80,000 | 80,000 | 380,273 |
| Total noncurrent liabilities | 70,144 | 15,650 | 110,030 | 195,824 | 380,273 |
| Total liabilities | 438,479 | 78,336 | 158,021 | 674,836 | 478,477 |
| Net Assets | | | | | |
| Invested in capital assets, net of related debt | 2,158,530 | 1,006,892 | 1,028,063 | 4,193,485 | 913,862 |
| Restricted for development fee payback | 20,750 | - | - | 20,750 | - |
| Unrestricted | 2,082,601 | 1,259,936 | 418,143 | 3,760,680 | 523,424 |
| Total net assets | 4,261,881 | 2,266,828 | 1,446,206 | 7,974,915 | 1,437,286 |
| Total liabilities and net assets | \$ 4,700,360 | \$ 2,345,164 | \$ 1,604,227 | \$ 8,649,751 | \$ 1,915,763 |

CITY OF HARBOR SPRINGS
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|--|---|------------------------|--------------|---|
| | Electric System | Water and Sewer System | Waterfront | Totals Current Year |
| Operating revenues | | | | |
| Charges for services | \$ 3,541,872 | \$ 960,980 | \$ 425,967 | \$ 4,928,819 |
| Operating expenses | | | | |
| Purchased power | 2,109,644 | - | - | 2,109,644 |
| Personal services | 414,347 | 219,695 | 108,767 | 742,809 |
| Contractual services | 376,128 | 682,576 | 161,130 | 1,219,834 |
| Other supplies and expenses | 137,776 | 96,414 | 17,805 | 251,995 |
| Heat, light and power | 33,076 | 24,009 | 19,384 | 76,469 |
| Depreciation | 140,305 | 55,932 | 66,587 | 262,824 |
| Total operating expenses | 3,211,276 | 1,078,626 | 373,673 | 4,663,575 |
| Operating income (loss) | 330,596 | (117,646) | 52,294 | 265,244 |
| Nonoperating revenues | | | | |
| Interest | 43,036 | 31,991 | 17,543 | 92,570 |
| Development fees | 41,293 | 11,500 | - | 52,793 |
| Gain on sale of fixed assets | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total nonoperating revenues | 84,329 | 43,491 | 17,543 | 145,363 |
| Nonoperating expenses | | | | |
| Interest | - | - | 11,200 | 11,200 |
| Total nonoperating revenues (expenses) | 84,329 | 43,491 | 6,343 | 134,163 |
| Income (loss) before operating transfers and capital contributions | 414,925 | (74,155) | 58,637 | 399,407 |
| Other financing sources (uses) | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | (242,594) | (21,038) | - | (263,632) |
| Total other financing sources (uses) | (242,594) | (21,038) | - | (263,632) |
| Capital contributions | 10,323 | - | - | 10,323 |
| Change in net assets | 182,654 | (95,193) | 58,637 | 146,098 |
| Total net assets - beginning | 4,079,227 | 2,362,021 | 1,387,569 | 7,828,817 |
| Total net assets - ending | \$ 4,261,881 | \$ 2,266,828 | \$ 1,446,206 | \$ 7,974,915 |

CITY OF HARBOR SPRINGS
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

| | Business-Type Activities - Enterprise Funds | | | | Governmental Activities - Internal Service Fund |
|---|---|------------------------------|------------|------------------------|---|
| | Electric System | Water and Sewer System | Waterfront | Totals Current Year | |
| Cash flows from operating activities | | | | | |
| Receipts from customers | \$ 3,456,290 | \$ 968,536 | \$ 427,397 | \$ 4,852,223 | \$ 362,678 |
| Payments to suppliers | (2,464,781) | (805,558) | (221,867) | (3,492,206) | (168,428) |
| Payments to employees | (409,541) | (208,718) | (108,947) | (727,206) | (40,665) |
| Net cash provided (used) by operating activities | 581,968 | (45,740) | 96,583 | 632,811 | 153,585 |
| Cash flows from non-capital financing activities | | | | | |
| Operating transfers-in from other funds | - | - | - | - | 73,632 |
| Operating transfers-out to other funds | (242,594) | (21,038) | - | (263,632) | - |
| Net cash provided (used) by non-capital financing activities | (242,594) | (21,038) | - | (263,632) | 73,632 |
| Cash flows from capital and related financing activities | | | | | |
| Acquisition and construction of capital assets and contracts payable | (213,185) | - | (212,552) | (425,737) | (150,890) |
| Principal paid on bonds | - | - | (40,000) | (40,000) | (85,000) |
| Interest paid on bonds | - | - | (11,200) | (11,200) | (13,611) |
| Gain on sale of fixed assets | - | - | - | - | 28,802 |
| Development fees | 41,293 | 11,500 | - | 52,793 | - |
| Capital contributed by customers | 10,323 | - | - | 10,323 | - |
| Net cash provided by miscellaneous non-operating activities | - | - | - | - | 6,957 |
| Net cash provided (used) for capital and related financing activities | (161,569) | 11,500 | (263,752) | (413,821) | (213,742) |
| Cash flows from investing activities | | | | | |
| Interest received | 29,521 | 28,395 | 14,648 | 72,564 | 11,413 |
| Net cash provided (used) from investing activities | 29,521 | 28,395 | 14,648 | 72,564 | 11,413 |
| Net increase (decrease) in cash | 207,326 | (26,883) | (152,521) | 27,922 | 24,888 |
| Cash, beginning | 1,271,774 | 1,189,860 | 597,405 | 3,059,039 | 481,301 |
| Cash, ending | \$ 1,479,100 | \$ 1,162,977 | \$ 444,884 | \$ 3,086,961 | \$ 506,189 |
| Classified as: | | | | | |
| Current assets | \$ 1,408,956 | \$ 1,147,327 | \$ 355,171 | \$ 2,911,454 | \$ 506,189 |
| Restricted assets | 70,144 | 15,650 | 89,713 | 175,507 | - |
| Totals | \$ 1,479,100 | \$ 1,162,977 | \$ 444,884 | \$ 3,086,961 | \$ 506,189 |

CITY OF HARBOR SPRINGS
Statement of Cash Flows
Proprietary Funds
(Continued)
For the Year Ended December 31, 2005

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|--|---|------------------------------|------------|---|
| | Electric System | Water and Sewer System | Waterfront | Totals Current Year |
| Reconciliation of operating income to net cash provided (used) by operating activities | | | | |
| Operating income (loss) | \$ 330,596 | \$ (117,646) | \$ 52,294 | \$ 265,244 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 140,305 | 55,932 | 66,587 | 262,824 |
| (Increase) decrease in accounts receivable | (93,396) | 7,256 | 200 | (85,940) |
| (Increase) decrease in inventory | (4,306) | 2,995 | - | (1,311) |
| (Increase) decrease in due from other funds | (1,481) | (3,505) | - | (4,986) |
| (Increase) decrease in prepaid expenses | (1,162) | (1,098) | (4,926) | (7,186) |
| Increase (decrease) in accounts payable | 198,792 | 1,434 | (13,063) | 187,163 |
| Increase (decrease) in accrued expenses | 4,806 | 10,977 | (180) | 15,603 |
| Increase (decrease) in due to other funds | - | - | 725 | 725 |
| Increase (decrease) in due to other governmental units | - | (2,385) | (6,284) | (8,669) |
| Increase (decrease) in deposits | 7,814 | 300 | 1,230 | 9,344 |
| Total adjustments | 251,372 | 71,906 | 44,289 | 367,567 |
| Net cash provided (used) by operating activities | \$ 581,968 | \$ (45,740) | \$ 96,583 | \$ 632,811 |

CITY OF HARBOR SPRINGS
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

| | <u>Agency Funds</u> |
|---------------------------------|---------------------|
| <u>Assets</u> | |
| Cash | \$ 805,142 |
| Receivables: | |
| Taxes | 1,993,608 |
| Water sales | <u>3,402</u> |
| Total assets | <u>\$ 2,802,152</u> |
| <u>Liabilities</u> | |
| Due to other funds | \$ 76,389 |
| Due to other governmental units | 3,739 |
| Due to County | 613,263 |
| Due to School | 1,123,776 |
| Due to State | 51,109 |
| Due to ISD | 431,873 |
| Due to College | 373,306 |
| Due to Medical Care Facility | 77,995 |
| Due to Cemetery | 24,164 |
| Due to Ambulance and EMS | 24,012 |
| Other liabilities | <u>2,526</u> |
| Total liabilities | <u>\$ 2,802,152</u> |

**CITY OF HARBOR SPRINGS
NOTES TO FINANCIAL STATEMENTS
December 31, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Harbor Springs (the City) was incorporated October 6, 1932, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds and similar component units in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the City of Harbor Springs:

REPORTING ENTITY

These financial statements present the City (the primary government) and its component unit. As defined by GASBS No. 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority, which was established pursuant to the provisions of Public Act 197 of 1975, as amended, is governed by a nine-member board appointed by the City Council. The Authority may issue debt subject to limitations set forth in the Act, but may not expend any monies without prior approval of City Council. Separate financial statements for the Downtown Development Authority are not issued. This fund was closed in 2004, there is no activity to report in 2005.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – OVERVIEW

The City of Harbor Springs' basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from legally separate component units for which the primary government is financially accountable.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government and its component units. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Internal service funds are consolidated into the governmental column when presented at the government-wide level. This is because the principal users of the internal service are the City's governmental activities. The net profit/loss in the internal service funds is allocated to the functional activity (public safety, public works, etc.) based upon usage.

In the government-wide Statement of Net Assets, both the governmental and business type activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. This Statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the City:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Major and Local Street Funds – The Street Funds account for the operation of the street departments. Primary financing is provided by the City's share of state gasoline taxes. State law requires these gasoline taxes be used to maintain streets.

In addition, the City reports the following non-major governmental funds:

Special Revenue Funds

Police Reserve Fund – The City performs record keeping functions for this fund while the City Council approves all transactions. Primary financing is through contributions.

Historical Commission Fund – The City performs record keeping functions for this fund while the City Council approves all transactions. Primary financing is through contributions.

Capital Project Fund

Capital Project Fund – The Capital Project Fund is being used to account for the Zoll Street Buildings project to remodel, improve, construct, furnish and equip two existing buildings to serve as a city hall and police department facility.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary funds of the City:

Electric Fund – The Electric Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing electricity to the general public are recovered through user charges.

Water and Sewer Fund – The Water and Sewer Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing water and sewer services to the general public are recovered through user charges.

Waterfront Fund – The Waterfront Fund is an Enterprise Fund. The fund is financed and operated in a manner similar to a private enterprise. The intent is that costs (expenses, including depreciation) of providing City boat docking and mooring services to the general public are recovered through user charges.

In addition, the City reports the following non-major proprietary funds:

Motor Vehicle and Equipment Fund – The Motor Vehicle and Equipment Fund is an internal service fund. This fund accounts for the cost of acquiring, maintaining and providing vehicle and equipment usage to various City departments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the Electric, Water and Sewer, Waterfront, and Motor Vehicle and Equipment Funds are charges to customers for sales and services. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Funds

The fiduciary funds are used to account for assets held by the City in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

Agency funds use the accrual basis of accounting, however report only assets and liabilities.

Tax Fund – The Tax Fund accounts for the collection and payment of property tax levies, payroll withholdings, nonprofit organization receipts and water billings.

West Traverse Township Water Fund – The West Traverse Township Water Fund accounts for the Township's usage of the City's water system.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds, pension trust funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled Water and Sewer and Electric Fund utility service receivables are recorded at year-end.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Inventory

Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory in the Historical Commission Fund consists of books and essays, which are recorded as expenditures when sold rather than when purchased.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are recorded by the City when the initial individual costs are equal to or greater than the following amounts:

| <u>Asset Type</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 1 |
| Equipment | 3,000 |
| Buildings & Building improvements | 10,000 |
| Infrastructure | 10,000 |

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

| | |
|--|----------------|
| Buildings | 40 to 60 years |
| Building Improvements | 20 to 60 years |
| Water and Sewer Lines | 50 to 75 years |
| Streets, Curbs and Gutters | 10 to 30 years |
| Electric Lines and Appurtenances | 30 to 50 years |
| Vehicles (Pickup Trucks & Automobiles) | 3 to 7 years |
| Vehicles (Large Trucks and Fire Trucks) | 10 to 25 years |
| Construction Equipment (Front End Loaders) | 5 to 15 years |
| Office Equipment | 5 to 7 years |
| Office Furniture | 5 to 15 years |

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED

Compensated Absences (Vacation and Sick Time)

Vacation days not used during the year may not be accumulated for union employees. Nonunion employees may convert unused vacation days to sick leave. Due to contract years differing from the City's fiscal year, unpaid vacation time represents unused, but not accumulated, vacation time. Sick time not used during the year may be accumulated. Upon retirement or death of an employee, he/she or his/her beneficiary is eligible to receive accumulated sick leave pay, up to a maximum dollar amount.

All vacation, sick pay, and other employee benefit amounts accrue when earned in the government-wide and proprietary fund financial statements. Sick and vacation pay are recognized in the governmental financial statements when the time is used.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The City designated \$35,000 during 2005 to be used to pay the City's share of a proposed Fire Station to be constructed at the Little Traverse Township Hall site. The City intends to designate another \$35,000 in 2006 for this same purpose.

COMPARATIVE DATA

Comparative data for the prior year is not included in the City's financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the City except for the agency funds. Budgetary control is legally maintained at the fund level.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to December 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at City Hall to obtain taxpayer comments.
3. Prior to January 1, the fund budgets are legally enacted through passage of resolutions.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures/expenses of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgeted amounts are as originally adopted, or as amended by the City Council.
7. All appropriations lapse at year-end.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY– CONTINUED

The General Fund Budgetary information includes administrative charges by the General Fund to various other funds as revenue of the General Fund. They have been offset against General Fund expenditures in the preparation of the basic financial statements. These charges remain as administrative expenditures/expenses of the various funds charged in the basic financial statements.

The City did not have an excess of expenditures over appropriations for the General Fund or its Special Revenue Funds.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy limits deposits to certificates of deposit, savings accounts with banks, savings and loan associations, and credit unions which are insured with the applicable federal agency. At year-end, the carrying amount of the City's deposits was \$6,558,072 and the bank balance was \$6,182,333. Of the bank balance, \$507,850 was covered by Federal depository insurance. The remaining amount was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds. The City may experience significant fluctuations in deposit balances through the year.

Credit Risk – Investments. At year-end, the City's investment in Proctor and Gamble stock had a fair market value of \$75,264. This equity investment is not in accordance with State law and does not have a recognized credit quality rating as do debt securities. The stock had been a gift to the City, and is part of the Police Reserve Fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: DEPOSITS AND INVESTMENTS –CONTINUED

Pooling of Cash - The City pools cash to maximize its investment return.

| <u>Fund</u> | <u>Amount</u> |
|--|---------------------|
| Primary Government | |
| General | \$ 1,131,694 |
| Major Street | 55,931 |
| Local Street | 860,907 |
| Electric System | 1,479,100 |
| Water and Sewer System | 1,162,977 |
| Waterfront | 444,884 |
| Other Nonmajor Governmental Funds | 110,248 |
| Internal Service Fund | 506,189 |
| Total | 5,751,930 |
| Fiduciary Funds | 2,211 |
| Total pooled cash | 5,754,141 |
| Cash not held in pooled accounts: | |
| Primary government | 1,720 |
| Component Unit | - |
| Fiduciary Funds | 802,931 |
| Total cash | <u>\$ 6,558,792</u> |
| Unrestricted cash (primary government) | \$ 5,578,143 |
| Unrestricted cash (component unit) | - |
| Unrestricted cash (fiduciary funds) | 805,142 |
| Restricted cash (primary government) | 175,507 |
| Total cash | <u>\$ 6,558,792</u> |

Restricted Assets

Restricted assets consist of cash restricted for customer deposits and in the Waterfront Fund in accordance with revenue bond indentures. Total restricted assets at December 31, 2005 were \$175,507.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of July 1 on the State taxable valuation of property in the City as of the preceding December 31. The City bills and collects its own property taxes and also collects taxes for other governmental units. Collection of other governmental unit's taxes and remittance of them to the units are accounted for in the Agency Fund. Property taxes are recognized as revenue in the year for which they are levied.

The City is permitted by charter to levy taxes, subject to State Headlee and Truth in Taxation provisions, up to \$15 per \$1,000 of taxable valuation for general governmental services and for the payment of principal and interest on general obligation long-term debt. The 2005 State taxable valuation of the City of Harbor Springs totaled \$187,663,406.

The tax rate for the year ended December 31, 2005, was as follows:

| <u>Purpose</u> | <u>Rate/Taxable Valuation</u> |
|-------------------------------|-------------------------------|
| General governmental services | 6.0001 per \$1,000 |

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|------------------|---------------------------------|------------------------------|
| General | \$ 74,150 | \$ 1,213 |
| Major Street | 616 | 1,042 |
| Local Street | - | 1,552 |
| Electric | 1,481 | - |
| Water and Sewer | 4,765 | - |
| Waterfront | - | 725 |
| Internal Service | - | 91 |
| Fiduciary | - | 76,389 |
| | <u>\$ 81,012</u> | <u>\$ 81,012</u> |

The interfund balances are mainly for property taxes.

NOTE 6: INTERFUND TRANSFERS

Operating transfers are as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------------|--------------------|---------------------|
| General Fund | \$ 190,000 | \$ 177,100 |
| Local Street Fund | 150,000 | - |
| Other Nonmajor Govt. Funds | 27,100 | - |
| Electric Fund | - | 242,594 |
| Water and Sewer Fund | - | 21,038 |
| Internal Service Fund | 73,632 | - |
| | <u>\$ 440,732</u> | <u>\$ 440,732</u> |

The operating transfers are mainly for street improvements and maintenance, debt service, equipment purchases, museum operations, and general City operations.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS

Capital asset activity of the City's primary government for the current year was as follows:

| | Balance January 1, 2005 | Additions | Deletions | Balance December 31, 2005 |
|---|----------------------------|------------|-----------|------------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 915,890 | \$ - | \$ - | \$ 915,890 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 3,292,206 | - | - | 3,292,206 |
| Street, curbs, sidewalks and storm sewers | 3,435,294 | 170,472 | - | 3,605,766 |
| Office equipment | 17,596 | 8,186 | - | 25,782 |
| Furniture & equipment | 175,866 | 3,881 | 31,383 | 148,364 |
| Machinery & equipment | 1,335,509 | 184,227 | 107,595 | 1,412,141 |
| Subtotal | 8,256,471 | 366,766 | 138,978 | 8,484,259 |
| Less accumulated depreciation: | | | | |
| Building and improvements | (257,089) | (26,013) | - | (283,102) |
| Street, curbs, sidewalks and storm sewers | (3,435,294) | (2,182) | - | (3,437,476) |
| Office equipment | (17,596) | (65) | - | (17,661) |
| Furniture & equipment | (51,607) | (17,260) | (31,383) | (37,484) |
| Machinery & equipment | (1,023,644) | (93,053) | (107,595) | (1,009,102) |
| Subtotal | (4,785,230) | (138,573) | (138,978) | (4,784,825) |
| Net capital assets being depreciated: | 3,471,241 | 228,193 | - | 3,699,434 |
| Governmental activities net capital assets | \$ 4,387,131 | \$ 228,193 | \$ - | \$ 4,615,324 |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

| | Balance January 1, 2005 | Additions | Deletions | Balance December 31, 2005 |
|--|----------------------------|------------|-------------|------------------------------|
| Business-type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 314,913 | \$ - | \$ - | \$ 314,913 |
| Construction in progress | 58,505 | - | (58,505) | - |
| Subtotal | 373,418 | - | (58,505) | 314,913 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 1,555,457 | 191,592 | - | 1,747,049 |
| Equipment | 6,251,278 | 292,650 | - | 6,543,928 |
| Subtotal | 7,806,735 | 484,242 | - | 8,290,977 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | (859,964) | (65,615) | - | (925,579) |
| Equipment | (3,169,620) | (197,206) | - | (3,366,826) |
| Subtotal | (4,029,584) | (262,821) | - | (4,292,405) |
| Net capital assets being depreciated | 3,777,151 | 221,421 | - | 3,998,572 |
| Business-type activities net capital assets | \$ 4,150,569 | \$ 221,421 | \$ (58,505) | \$ 4,313,485 |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS – CONTINUED

Depreciation expense was charged to the primary government as follows:

Governmental Activities

| | |
|--|-------------------|
| Unallocated | \$ 13,496 |
| Internal service fund capital assets consolidated with the governmental activities | <u>125,077</u> |
| Total governmental activities | <u>\$ 138,573</u> |

Business-type Activities

| | |
|--------------------------------|-------------------|
| Electric | 140,302 |
| Water and sewer | 55,932 |
| Waterfront | <u>66,587</u> |
| Total business-type activities | <u>\$ 262,821</u> |

Proprietary Fund Type Property, Plant and Equipment

Proprietary fund type property, plant and equipment at December 31, 2005 are summarized as follows:

| | Enterprise | Internal Service |
|----------------------------|---------------------|---------------------|
| Land | \$ 314,913 | \$ 36,640 |
| Buildings and improvements | 1,747,049 | 1,156,544 |
| Equipment | <u>6,543,928</u> | <u>1,408,827</u> |
| Total | 8,605,890 | 2,602,011 |
| Less: accumulated dep. | <u>(4,292,405)</u> | <u>(1,225,308)</u> |
| Net | <u>\$ 4,313,485</u> | <u>\$ 1,376,703</u> |

NOTE 8: DEFERRED CHARGES

Debt issuance cost within the Motor Vehicle and Equipment Fund of \$25,747 relating to the 2004 General Obligation Bonds are being amortized as interest expense using the straight-line method over the 6-year life of the 2005 bonds. Interest expense of \$4,291 was recognized in the current year; unamortized amounts at year-end amounted to \$21,456.

NOTES TO FINANCIAL STATEMENTS-CONTINUED

NOTE 9: LEASE OBLIGATIONS

The City has entered into lease agreements with the Harbor Springs Area Fire Authority for fire protection services. The City uses the land, building, and equipment to provide fire protection services to the constituent municipalities making up the Harbor Springs Area Fire Authority.

The current lease agreements with the Authority call for annual lease payments from the Authority to the City of \$50 for the land and building lease, and annual payments from the City to the Authority of \$5 for the sublease of land and buildings, and \$5 for the lease of fire protection equipment.

The City has a lease agreement with the Harbor-Petoskey Area Airport Authority for airport related services. The City leases real and personal property to the Authority in consideration for those airport services as well as \$1 per year. The lease term of 25 years is extended each year unless either the lessor or tenant gives notice to fix the term.

The City has a lease agreement with the State of Michigan Department of Natural Resources ('DNR') for a parcel of Lake Michigan bottomland where the City's East Dock is located. The original lease terms call for annual payments to the DNR through 2014. Lease rates are adjusted in years ending in "0" or "5". The terms allow for one renewal of 25 years at the City's option. The lease amount for the year ending December 31, 2005 was \$4,961.

The City also has a lease agreement with the State of Michigan Department of Environmental Quality for the mooring fields. The lease fees are 10% of annual mooring revenues. For the year ended December 31, 2005, the lease fees were \$5,310.

NOTE 10: DEFERRED COMPENSATION PLAN

In prior years, the City offered its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan, available to all City employees, permitted them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

In complying with the amended Section 457 requirements, these assets are now for the exclusive benefit of participants and not subject to the claims of the City's general creditors. As such, they are no longer included in an agency fund of the City.

The City made contributions to this deferred compensation plan based on 8% to 12% of gross salary for the year. Employee contributions for the year totaled \$10,284 while employer contributions were \$4,533. As of March 2005, all new employees must join the Michigan Municipal Employees' Retirement System. Existing employees could make a one-time election to remain in the Section 457 plan with employer contributions continuing at 8.5% of their base pay.

NOTE 11: DEFINED CONTRIBUTION PLAN

Prior to March 2005, the City provided pension benefits for its full-time union employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees were eligible to participate upon employment. Union agreements required the City to contribute 8.5% of each employee's base wages to their individual accounts. Employees could also contribute to their individual accounts. Employer contributions and earnings of each individual employee fully vested after seven years of credited service. Contributions and earnings not vested with employees who left employment were used to offset the cost of succeeding employer contributions.

The City's total plan payroll for January and February 2005 was \$127,216. The City made the required contribution in the amount of \$10,813. There were no volunteer employee contributions.

Employer contributions were transferred to the MERS plan in March 2005. Some employee contributions were also voluntarily transferred to the new plan. The City will no longer make contributions to the defined contribution plan.

NOTE 12: DEFINED BENEFIT PENSION PLAN

Plan Description

In March 2005, The City of Harbor Springs began participating in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees and the meter reader of the City of Harbor Springs. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the state's local government employees. MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 North Canal, Lansing, Michigan 48917.

Funding Policy

Annual minimum funding requirements are determined via actuarial calculations. The actuarial basis is determined by statute. The City contributes 8.5% of payroll for plan participants, regardless of the minimum funding amount. Plan members are required to contribute any amounts in excess of 8.5% of payroll that are necessary to meet the minimum funding requirements. For the year-ended December 31, 2005, employee contributions were \$40,026. The contribution requirements of plan members and the City are established and may be amended by the MERS board.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 12: DEFINED BENEFIT PENSION PLAN – CONTINUED

Annual Pension Cost

For the year-ended 2005, the City's required and actual contributions were \$83,058. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses); and (b) projected salary increases of 4.5% per year (plus a percentage based on an age-related scale to reflect merit, longevity, and promotional pay increases). Both (a) and (b) included an inflation component of 3% to 4%. The actuarial value of the City's assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. The City's unfunded actuarial accrued liabilities are amortized by a level percent of payroll contributions over a 30-year period.

Three-Year Trend Information

| <u>Fiscal Year-ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-------------------------------|--|--|-----------------------------------|
| 12-31-05 | \$83,058 | 100% | - |

Schedule of Funding Progress

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAAL as a Percentage of Covered-Payroll ((b-a)/c)</u> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 01/01/05 | 1,152,172 | 2,222,610 | 1,070,438 | 52% | 1,189,208 | 90% |
| 12/31/05 | * | * | * | * | * | * |

* Information not currently available.

NOTE 13: OTHER POST-EMPLOYEE BENEFITS

The City provides post-employment benefits of health insurance to eligible employees. The City funds these benefits on a pay-as-you-go basis as necessary. For the year ended December 31, 2005, there were eight participants. The City's expense was approximately \$99,225.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 14: LONG-TERM DEBT

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2005:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|--|----------------------|-------------|-------------------|---------------------|----------------------------------|
| PRIMARY GOVERNMENT | | | | | |
| Governmental Activities | | | | | |
| Bonds and notes payable: | | | | | |
| General obligation debt | | | | | |
| 2002 Series | \$ 1,075,000 | \$ - | \$ 25,000 | \$ 1,050,000 | \$ 25,000 |
| 2004 Series | 560,000 | - | 85,000 | 475,000 | 85,000 |
| | 1,635,000 | - | 110,000 | 1,525,000 | 110,000 |
| Plus premium on bonds payable | 5,215 | - | 869 | 4,346 | 869 |
| Less deferred amount on refundings | (19,799) | - | (3,294) | (16,505) | (3,301) |
| Total bonds and notes payable | 1,620,416 | - | 107,575 | 1,512,841 | 107,568 |
| Other liabilities: | | | | | |
| Compensated absences | 33,602 | - | 1,559 | 32,043 | - |
| Total governmental activities long-term liabilities | <u>\$ 1,654,018</u> | <u>\$ -</u> | <u>\$ 109,134</u> | <u>\$ 1,544,884</u> | <u>\$ 107,568</u> |
| Business Type Activities | | | | | |
| Bonds and notes payable: | | | | | |
| Revenue bonds | | | | | |
| 1989 Marina improvement | <u>\$ 160,000</u> | <u>\$ -</u> | <u>\$ 40,000</u> | <u>\$ 120,000</u> | <u>\$ 40,000</u> |

Long-term liabilities payable at December 31, 2005 is composed of the following individual issues:

| | |
|---|--------------------|
| \$1,125,000, 2002 Harbor Springs Building Authority General Obligation bonds due in annual installments of \$25,000 to \$75,000 through October 1, 2022; interest at 4.00% to 6.00%. | \$1,050,000 |
| \$560,000, 2004 Harbor Springs General Obligation bonds due in annual installments of \$80,000 to \$105,000 through October 1, 2010; interest at 3.00% to 3.50%, net of premium and deferred amount on refundings. | <u>462,841</u> |
| Total governmental activities general obligation debt | 1,512,841 |
| Compensated Absences | <u>32,043</u> |
| Total governmental activities long-term liabilities | <u>\$1,544,884</u> |

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 14: LONG-TERM DEBT – CONTINUED

Business-Type Activities:

\$450,000, 1989 Marina Improvement Revenue Bonds due in annual installments of \$40,000 through September 1, 2008; interest at 6.95% to 7.00%.

\$120,000

The annual debt service requirements to maturity for all general and revenue obligation bonds outstanding excluding premium and refunding deferrals, as of December 31, 2005, are as follows:

| Year Ending December 31 | Governmental Activities | | Business-Type Activities | |
|----------------------------|-------------------------|-------------------|--------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 110,000 | \$ 69,980 | \$ 40,000 | \$ 8,400 |
| 2007 | 130,000 | 66,430 | 40,000 | 5,600 |
| 2008 | 155,000 | 61,030 | 40,000 | 2,800 |
| 2009 | 155,000 | 54,878 | - | - |
| 2010 | 150,000 | 48,468 | - | - |
| 2011-2015 | 300,000 | 182,215 | - | - |
| 2016-2020 | 375,000 | 95,810 | - | - |
| 2021-2022 | 150,000 | 11,530 | - | - |
| Total | <u>\$ 1,525,000</u> | <u>\$ 590,341</u> | <u>\$ 120,000</u> | <u>\$ 16,800</u> |

NOTE 15: COMMITMENTS

Insurance Commitments

The City self-insures its workmen's compensation and unemployment compensation liabilities through their participation in workmen's compensation and unemployment compensation self-insurance groups.

Entitlement Commitments

- A. During 1979 and 1982, the Michigan Public Power Agency (MPPA), of which the City is a member, acquired an ownership interest in the Consumers Power Company Campbell No. 3 plant, related transmission lines and coal stockpile, and rights to back-up capacity and energy supplies from other Consumer generating units and resources.

The City's entitlement share of the Campbell No. 3 generating capacity is 500 (KW) which specifies minimum annual payments on a "take-or-pay" basis for the generation and transmission capability of the unit, through the year 2012.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 15: COMMITMENTS – CONTINUED

Entitlement Commitments – Continued

- B. During 2001, the MPPA, of which the City is a member, acquired an ownership interest in the CT Project No. 1.

The City's entitlement share of the CT Project No. 1 generating capacity is 1,999(KW) which specifies minimum annual payments on a "take-or-pay" basis for the generation and transmission capability of the unit, through the year 2026.

- C. The City also has a take-or-pay contract with the Harbor Springs Area Sewage Disposal Authority for the construction of a sewer system. The control and ownership of the sewer facilities rests with the Authority.

The original 1989 Bonds were refunded in 2004. The faith and credit of the City has been pledged to pay its 63.84% share of the \$370,000 refunding bonds issued by the Harbor Springs Area Sewage Disposal Authority through the year 2009.

- D. In March 2002, the City entered into a contract with the Harbor Springs Area Sewage Disposal Authority for the City's share of the cost of a new wastewater treatment facility and the closure of the Authority's existing lagoon and spray irrigation system.

The faith and credit of the City has been pledged to pay its 39.28% share of the \$5,664,770 of bonds issued by the Harbor Springs Area Sewage Disposal Authority through the year 2023.

The entitlements specify minimum annual payments as follows:

| | Campbell No. 3 (A.) | CT Project No. 1 (B.) | H. S. Sewage Authority (C.) | H. S. Sewage Authority (D.) | Total |
|----------------|------------------------|--------------------------|--------------------------------|--------------------------------|---------------------|
| 2006 | \$ 48,916 | \$ 109,697 | \$ 51,172 | \$ 140,375 | \$ 350,160 |
| 2007 | 48,951 | 109,811 | 52,967 | 141,995 | 353,724 |
| 2008 | 48,939 | 109,703 | 51,471 | 141,578 | 351,691 |
| 2009 | 39,901 | 109,732 | 52,987 | 141,111 | 343,731 |
| 2010 | 40,128 | 109,889 | - | 140,596 | 290,613 |
| 2011-2015 | 80,477 | 548,770 | - | 706,562 | 1,335,809 |
| 2016-2020 | - | 548,875 | - | 704,844 | 1,253,719 |
| 2021-2025 | - | 548,905 | - | 423,981 | 972,886 |
| 2026-2029 | - | 109,750 | - | - | 109,750 |
| Total payments | <u>\$ 307,312</u> | <u>\$ 2,305,132</u> | <u>\$ 208,597</u> | <u>\$ 2,541,042</u> | <u>\$ 5,362,083</u> |

NOTES TO FINANCIAL STATEMENTS-CONTINUED

NOTE 16: CONTINGENCIES

The City is currently testing the West Traverse Landfill, which was formerly operated by the City in conjunction with the townships of Friendship and West Traverse, as a possible source of drinking water contamination. However, studies to date have been inconclusive. Thus, no provision has been made for any potential liability related to the landfill.

NOTE 17: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City belongs to the Michigan Municipal League Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The City pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the City could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Settled claims have not exceeded coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Over/(Under) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Beginning budgetary fund balance | <u>\$ 1,136,000</u> | <u>\$ 1,158,800</u> | <u>\$ 1,260,256</u> | <u>\$ 101,456</u> |
| Resources (Inflows): | | | | |
| Taxes | 1,199,400 | 1,198,900 | 1,197,911 | (989) |
| Licenses and permits | 18,300 | 16,000 | 16,981 | 981 |
| State grants | 122,400 | 120,900 | 141,132 | 20,232 |
| Administrative fees | 401,700 | 406,700 | 406,550 | (150) |
| Charges for services | 148,000 | 148,900 | 155,468 | 6,568 |
| Fines and forfeits | 3,200 | 2,600 | 2,763 | 163 |
| Interest | 30,000 | 30,000 | 36,840 | 6,840 |
| Other | 14,500 | 32,100 | 36,158 | 4,058 |
| Transfers from other funds | 190,000 | 190,000 | 190,000 | - |
| | <u>2,127,500</u> | <u>2,146,100</u> | <u>2,183,803</u> | <u>37,703</u> |
| Amounts available for appropriations | | | | |
| Charges to appropriations (outflows): | | | | |
| General government: | | | | |
| Legislative | 3,400 | 2,200 | 1,690 | (510) |
| Manager | 110,800 | 109,400 | 108,214 | (1,186) |
| Elections | 5,400 | 8,100 | 7,448 | (652) |
| Accounting | 137,500 | 148,200 | 142,631 | (5,569) |
| Assessing | 57,000 | 53,000 | 46,354 | (6,646) |
| Legal services | 54,000 | 77,100 | 75,144 | (1,956) |
| Clerk | 90,800 | 88,800 | 87,063 | (1,737) |
| Finance treasurer | 52,600 | 49,900 | 45,813 | (4,087) |
| City hall and grounds | 127,500 | 128,500 | 126,999 | (1,501) |
| | <u>639,000</u> | <u>665,200</u> | <u>641,356</u> | <u>(23,844)</u> |
| Total general government | | | | |
| Public safety: | | | | |
| Police | 497,400 | 519,100 | 504,462 | (14,638) |
| Marine patrol | 29,300 | 25,400 | 22,761 | (2,639) |
| Fire | 180,100 | 181,000 | 157,011 | (23,989) |
| Planning | 52,700 | 52,500 | 52,601 | 101 |
| | <u>759,500</u> | <u>778,000</u> | <u>736,835</u> | <u>(41,165)</u> |
| Total public safety | | | | |
| Public works: | | | | |
| Cost of labor - sales | 1,400 | 600 | 669 | 69 |
| Spring clean-up | 37,300 | 34,600 | 32,506 | (2,094) |
| Leaf pickup | 41,200 | 51,200 | 51,444 | 244 |
| Sidewalks | 30,200 | 29,400 | 31,931 | 2,531 |
| Parking lots | 16,000 | 17,500 | 20,789 | 3,289 |
| Administration & fringe benefits | 170,200 | 160,500 | 135,997 | (24,503) |
| Airport activities | 5,400 | 5,300 | 5,255 | (45) |
| | <u>301,700</u> | <u>299,100</u> | <u>278,591</u> | <u>(20,509)</u> |
| Total public works | | | | |

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
General Fund
(Continued)
For the Year Ended December 31, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Over/(Under) |
|---------------------------------|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Recreation and cultural: | | | | |
| SK-8 park | 32,000 | 47,500 | 48,625 | 1,125 |
| Beach | 38,900 | 37,500 | 37,462 | (38) |
| Kiwanis park | 5,300 | 4,700 | 3,720 | (980) |
| Ice rink | 29,600 | 24,600 | 25,979 | 1,379 |
| Parks and grounds | 72,500 | 81,200 | 77,956 | (3,244) |
| Deer park | 8,000 | 5,800 | 866 | (4,934) |
| Tree maintenance | 24,100 | 6,100 | 4,512 | (1,588) |
| Community promotion | 9,200 | 10,300 | 9,107 | (1,193) |
| Total recreation and cultural | <u>219,600</u> | <u>217,700</u> | <u>208,227</u> | <u>(9,473)</u> |
| Other functions | <u>26,700</u> | <u>28,700</u> | <u>31,059</u> | <u>2,359</u> |
| Transfers (out) | <u>177,100</u> | <u>177,100</u> | <u>177,100</u> | <u>-</u> |
| Total charges to appropriations | <u>2,123,600</u> | <u>2,165,800</u> | <u>2,073,168</u> | <u>(92,632)</u> |
| Ending budgetary fund balance | <u>\$ 1,139,900</u> | <u>\$ 1,139,100</u> | <u>\$ 1,370,891</u> | <u>\$ 231,791</u> |

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended December 31, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Over/(Under) |
|--|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Beginning budgetary fund balance | <u>\$ 112,200</u> | <u>\$ 143,600</u> | <u>\$ 143,566</u> | <u>\$ (34)</u> |
| Resources (inflows): | | | | |
| State grants | 152,000 | 152,000 | 140,830 | (11,170) |
| Interest | <u>2,000</u> | <u>2,000</u> | <u>2,978</u> | <u>978</u> |
| Amounts available for appropriations | <u>154,000</u> | <u>154,000</u> | <u>143,808</u> | <u>(10,192)</u> |
| Charges to appropriations (outflows): | | | | |
| Public works: | | | | |
| Construction | 79,500 | 86,800 | 81,928 | (4,872) |
| Routine maintenance | 88,900 | 73,300 | 71,820 | (1,480) |
| Winter maintenance | 34,600 | 36,500 | 35,501 | (999) |
| Administration | 10,000 | 10,000 | 10,000 | - |
| Other | <u>19,600</u> | <u>12,500</u> | <u>5,094</u> | <u>(7,406)</u> |
| Total charges to appropriations | <u>232,600</u> | <u>219,100</u> | <u>204,343</u> | <u>(14,757)</u> |
| Ending budgetary fund balance | <u>\$ 33,600</u> | <u>\$ 78,500</u> | <u>\$ 83,031</u> | <u>\$ 4,531</u> |

CITY OF HARBOR SPRINGS
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended December 31, 2005

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Over/(Under) |
|--|--------------------------|--------------------------|--------------------------|---|
| | Original | Final | | |
| Beginning budgetary fund balance | <u>\$ 791,100</u> | <u>\$ 808,000</u> | <u>\$ 807,947</u> | <u>\$ (53)</u> |
| Resources (inflows): | | | | |
| State grants | 42,100 | 42,100 | 50,885 | 8,785 |
| Interest | 10,000 | 10,000 | 22,193 | 12,193 |
| Other revenue | 100 | 4,400 | 4,470 | 70 |
| Transfers from other funds | <u>150,000</u> | <u>150,000</u> | <u>150,000</u> | <u>-</u> |
| Amounts available for appropriations | <u>202,200</u> | <u>206,500</u> | <u>227,548</u> | <u>21,048</u> |
| Charges to appropriations (outflows): | | | | |
| Public works: | | | | |
| Construction | 103,400 | 41,000 | 40,516 | (484) |
| Routine maintenance | 69,700 | 91,600 | 77,114 | (14,486) |
| Winter maintenance | 24,700 | 22,500 | 18,541 | (3,959) |
| Administration | 10,000 | 10,000 | 10,000 | - |
| Other | <u>39,600</u> | <u>23,600</u> | <u>18,276</u> | <u>(5,324)</u> |
| Total charges to appropriations | <u>247,400</u> | <u>188,700</u> | <u>164,447</u> | <u>(24,253)</u> |
| Ending budgetary fund balance | <u><u>\$ 745,900</u></u> | <u><u>\$ 825,800</u></u> | <u><u>\$ 871,048</u></u> | <u><u>45,248</u></u> |

OTHER SUPPLEMENTAL INFORMATION

**CITY OF HARBOR SPRINGS
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2005**

| <u>Assets</u> | Police Reserve | Historical Commission | Capital Project | Total |
|---|---------------------------|----------------------------------|----------------------------|-------------------|
| Cash | \$ 6,033 | \$ 40,542 | \$ 63,773 | \$ 110,348 |
| Investments | 75,264 | - | - | 75,264 |
| Receivables: | - | - | - | - |
| Accounts | - | - | - | - |
| Accrued interest | 58 | 337 | 649 | 1,044 |
| Inventory, at cost | - | 7,551 | - | 7,551 |
| Prepaid expenditures | - | 292 | - | 292 |
| Total assets | \$ 81,355 | \$ 48,722 | \$ 64,422 | \$ 194,499 |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 22 | \$ 2,436 | \$ 3,344 | \$ 5,802 |
| Accrued expenditures | - | 227 | - | 227 |
| Total liabilities | 22 | 2,663 | 3,344 | 6,029 |
| Fund balances | | | | |
| Reserved for inventory and prepaids | - | 7,843 | - | 7,843 |
| Unreserved | 81,333 | 38,216 | 61,078 | 180,627 |
| Total fund balances | 81,333 | 46,059 | 61,078 | 188,470 |
| Total liabilities and fund balances | \$ 81,355 | \$ 48,722 | \$ 64,422 | \$ 194,499 |

CITY OF HARBOR SPRINGS
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2005

| | <u>Police Reserve</u> | <u>Historical Commission</u> | <u>Capital Project</u> | <u>Total</u> |
|--|---------------------------|----------------------------------|----------------------------|-------------------|
| Revenues | | | | |
| Charges for services | \$ - | \$ 2,302 | \$ - | \$ 2,302 |
| Interest and investment earnings | 2,871 | 990 | 2,312 | 6,173 |
| Other | <u>-</u> | <u>89</u> | <u>1,500</u> | <u>1,589</u> |
| Total revenues | <u>2,871</u> | <u>3,381</u> | <u>3,812</u> | <u>10,064</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public Safety | 2,178 | - | - | 2,178 |
| Recreational and cultural | - | 22,016 | - | 22,016 |
| Capital Outlay | <u>-</u> | <u>-</u> | <u>35,787</u> | <u>35,787</u> |
| Total expenditures | <u>2,178</u> | <u>22,016</u> | <u>35,787</u> | <u>59,981</u> |
| Excess (deficiency) of revenues over expenditures | <u>693</u> | <u>(18,635)</u> | <u>(31,975)</u> | <u>(49,917)</u> |
| Other financing sources (uses) | | | | |
| Operating transfers in | <u>-</u> | <u>27,100</u> | <u>-</u> | <u>27,100</u> |
| Net change in fund balances | 693 | 8,465 | (31,975) | (22,817) |
| Fund balances - beginning of year | <u>80,640</u> | <u>37,594</u> | <u>93,053</u> | <u>211,287</u> |
| Fund balances - end of year | <u>\$ 81,333</u> | <u>\$ 46,059</u> | <u>\$ 61,078</u> | <u>\$ 188,470</u> |

CITY OF HARBOR SPRINGS
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2005

| | Agency Funds | | Total |
|---------------------------------|---------------------|-----------------------------------|---------------------|
| | Tax Fund | West Traverse Township Water Fund | |
| <u>Assets</u> | | | |
| Cash | \$ 802,931 | \$ 2,211 | \$ 805,142 |
| Receivables: | | | |
| Taxes | 1,993,608 | - | 1,993,608 |
| Water sales | - | 3,402 | 3,402 |
| | | | |
| Total assets | <u>\$ 2,796,539</u> | <u>\$ 5,613</u> | <u>\$ 2,802,152</u> |
| <u>Liabilities</u> | | | |
| Due to other funds | \$ 74,515 | \$ 1,874 | \$ 76,389 |
| Due to other governmental units | - | 3,739 | 3,739 |
| Due to County | 613,263 | - | 613,263 |
| Due to School | 1,123,776 | - | 1,123,776 |
| Due to State | 51,109 | - | 51,109 |
| Due to ISD | 431,873 | - | 431,873 |
| Due to College | 373,306 | - | 373,306 |
| Due to Medical Care Facility | 77,995 | - | 77,995 |
| Due to Cemetery | 24,164 | - | 24,164 |
| Due to ambulance and EMS | 24,012 | - | 24,012 |
| Other liabilities | 2,526 | - | 2,526 |
| | | | |
| Total liabilities | <u>\$ 2,796,539</u> | <u>\$ 5,613</u> | <u>\$ 2,802,152</u> |